

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Delta County Road Commission</b>	County <b>Delta</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>2/3/06</b>	Date Accountant Report Submitted to State: <b>3/31/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |                                                                     |                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.                                                                                                                                                                                                                             |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).                                                                                                                                                                                                      |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).                                                                                                                                                                                                                |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.                                                                                                                                             |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).                                                                                                                                             |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.                                                                                                                                                                                                                     |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).                                                                                                                                                                                                         |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).                                                                                                                                                                                                                                |

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>901 Ludington Street</b>	City <b>Esanaba</b>	State <b>MI</b>	ZIP <b>49829</b>
Accountant Signature <i>Anderson, Tackman &amp; Company P.C.</i>		Date <b>3/31/06</b>	

**DELTA COUNTY ROAD COMMISSION**

**BASIC FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2005**

**DELTA COUNTY**

**BOARD OF COUNTY ROAD COMMISSIONERS**

John LaTulip  
Vice - Chairman

Peter Stropich  
Chairman

Mike Larrabee  
Member

Roger VanDrese  
Managing Director

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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### **INDEPENDENT AUDITORS' REPORT**

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, MI 49829

We have audited the accompanying financial statements of the governmental activities and the governmental major fund of the Delta County Road Commission (a component unit of the County of Delta, Michigan) as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Delta County Road Commission as of September 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of the Delta County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and budgetary comparisons on pages 27 and 28 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delta County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company P.L.C.*

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 3, 2006

## **Management's Discussion and Analysis**

### Using This Annual Report

The Delta County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

### Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

### Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.



The Road Commission as a Whole

The road commission's net assets increased approximately 19% from \$10.4 million to \$12.4 million for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net assets increased \$2,085,294 during the current year primarily due to infrastructure additions for road projects funded by state and federal funds. The investment in capital assets category increased \$2,068,065.

Net assets as of the years ending September 30, 2005 and 2004 are as follows:

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 3,439,097	\$ 2,699,154
Capital Assets	<u>15,948,224</u>	<u>14,066,970</u>
Total Assets	<u>\$ 19,387,321</u>	<u>\$ 16,766,124</u>
Current Liabilities	\$ 1,683,619	\$ 1,060,038
Long-term Liabilities	<u>5,214,555</u>	<u>5,302,233</u>
Total Liabilities	<u>\$ 6,898,174</u>	<u>\$ 6,362,271</u>
Net Assets:		
Investment in Capital Assets, Net of Related Debt	\$ 10,803,224	\$ 8,735,159
Restricted	<u>1,685,923</u>	<u>1,668,694</u>
Total Net Assets	<u>\$ 12,489,147</u>	<u>\$ 10,403,853</u>

A summary of changes in net assets for the years ending September 30, 2005 and 2004 are as follows:

	Governmental Activities	
	2005	2004
Program Revenues:		
Charges for Services	\$ 1,351,112	\$ 1,395,224
Operating Grants and Contributions	6,101,693	5,973,426
Other	14,766	81,007
General Revenues:		
Interest Income	26,487	8,965
Gain on Disposal of Equipment	27,766	50,217
Total Revenues	<u>\$ 7,521,824</u>	<u>\$ 7,508,839</u>
Program Expenses:		
Primary Roads:		
Preservation-Structural Maintenance	7,042	91,227
Maintenance	1,595,180	1,501,779
Local Roads:		
Preservation-Structural Maintenance	781,518	2,590
Maintenance	514,007	1,151,698
State Trunkline Maintenance	1,234,868	1,113,616
Interest Expense	261,134	284,527
Compensated Absences	29,762	15,434
Equipment Expenses	505,178	354,996
Administrative	473,320	392,756
Other	34,521	-
Total Expenses	<u>\$ 5,436,530</u>	<u>\$ 4,908,623</u>
Increases in Net Assets	<u>\$ 2,085,294</u>	<u>\$ 2,600,216</u>

#### The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2005, the fund balance of the general operations fund increased \$40,929 as compared to an increase of \$162,024 in the fund balance for the year ended September 30, 2004. Total revenues were \$7,521,824, an increase of \$12,985 as compared to last year. Total

expenditures were \$7,480,895, an increase of \$134,081 as compared to last year. Many of the Road Commission's revenues and expenditures vary significantly from year to year depending on such factors as: Levels of state and federal funding for road projects, levels of Michigan Transportation Funds received – which is never known until fuel taxes are collected and distributed monthly, and the amount of State Trunkline Maintenance and Non-Maintenance work that is required each year (these costs are reimbursed 100% by the Michigan Department of Transportation, but depending on the severity of winter weather and the amount of non-maintenance work that is requested, the costs fluctuate from year to year). Another contributing factor for the varying changes in fund balances from one year to another is that having the fiscal year end on September 30<sup>th</sup>, often in the middle of construction projects, causes revenue and expenditures for those projects to fall into two fiscal periods, but it is hard to predict what percentage of the project will be completed before the end of the year, which then may cause an increase to the fund balance in one year but a decrease in the following year.

#### Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

Actual revenue for 2005 was higher than the revenue budget by \$211,199. This is primarily due to receiving an unexpected Transportation Work Authorization from Michigan Department of Transportation right at the end of the fiscal year in the amount of \$213,977 which was not taken into consideration at the time of the final budget amendment.

Road Commission expenditures were projected at \$7,303,229 while actual expenditures were \$7,480,895. This resulted in total expenditures over budget by \$177,666. When taking into consideration the increased expenditure of \$213,977 for an unexpected Transportation Work Authorization from Michigan Department of Transportation that came in at the end of the fiscal year and was not included in the final budget amendment, the actual expenditures would be \$70,831 less than the total budgeted. There were a combination of things that came in higher or lower than was estimated, and again, with so many things varying so much, it is very difficult to predict actual expenditures and revenue. Road Commission administrative staff is continuing to implement ways of tracking revenue and expenditures more closely to attempt to adjust the budget more accurately prior to the end of the fiscal year.

## Capital Asset and Debt Administration

Capital Assets

A summary of capital assets for the years ending September 30, 2005 and 2004 are as follows:

	2005	2004
Capital Assets Not Being Depreciated:		
Land and Improvements	\$ 1,410,797	\$ 1,410,797
Other Capital Assets:		
Buildings and Improvements	6,785,221	6,764,447
Road Equipment	6,313,141	6,024,304
Other Equipment	286,026	275,409
Infrastructure and Improvements	7,968,106	5,496,398
Construction in Progress	133,637	-
Total Capital Assets at Historic Cost	22,896,928	19,971,355
Total Accumulated Depreciation	(6,948,704)	(5,904,385)
Total Net Capital Assets	\$ 15,948,224	\$ 14,066,970

Current year's major additions included the following:

Various Road Projects	\$ 2,471,708	\$ 2,390,831
Bridge Project	-	-
Trucks/Equipment	393,895	559,238
Buildings	20,774	65,967

Debt

The road commission has limited debt obligations. Bonds issued in prior years have been paid currently. The road commission has long-term debt in the amount of \$5,214,555, which represents compensated absences, and bonds and loans payable. More detailed information about the road commission's long-term liabilities is presented in Note 9 to the financial statements.

### Economic Factors and Next Year's Budget

The board of county road commissions considered many factors when setting the fiscal year 2006 budget. The Road Commission anticipates an increase in federal and state aid projects and funding for fiscal year 2006 for a greater amount of project work to be performed compared to fiscal year 2005. Michigan Transportation Funds in 2006 are expected to be at the same levels as fiscal year 2005.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Delta County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Delta County.

### Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Delta County Road Commission administrative offices at 3000 32<sup>nd</sup> Avenue North, Escanaba, Michigan 49829.

## **Basic Financial Statements**

# Delta County Road Commission

## Statement of Net Assets September 30, 2005

### ASSETS

Cash and Equivalents	\$ 1,230,051
Accounts Receivable:	
Due from Townships on Long-term Agreements	116,000
Michigan Transportation Fund	657,590
State – Other	336,042
Due on County Road Agreements	323,875
Sundry Accounts	8,585
Inventories:	
Road Materials	586,124
Equipment, Parts and Materials	168,314
Prepaid Expenses	12,516
Capital Assets (Net of Accumulated Depreciation)	<u>15,948,224</u>
Total Assets	<u>\$ 19,387,321</u>

### LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 843,185
Accrued Liabilities	60,377
Advances from State	457,866
Due to State	43,901
Interest Payable	108,438
Bonds Payable	110,000
Compensated Absences	59,852
Noncurrent Liabilities:	
Bonds Payable	5,035,000
Compensated Absences	<u>179,555</u>
Total Liabilities	<u>6,898,174</u>

### NET ASSETS

Investment in Capital Assets	
Net of Related Debt	\$ 10,803,224
Restricted for County Road	<u>1,685,923</u>
Total Net Assets	<u>\$ 12,489,147</u>

The Notes to Financial Statements are an integral part of this statement.

# Delta County Road Commission

## Statement of Activities For the Year Ended September 30, 2005

### Program Expenses:

Primary Road Preservation-Structural Maintenance	\$ 7,042
Primary Road Maintenance	1,595,180
Local Road Preservation-Structural Maintenance	781,518
Local Road Maintenance	514,007
State Trunkline Maintenance	1,234,868
Net Equipment Expense	505,178
Net Administrative Expense	473,320
Compensated Absences	29,762
Interest Expense	261,134
Other	<u>34,521</u>
Total Program Expenses	<u>5,436,530</u>

### Program Revenues:

License and Permits	14,755
Federal Grants	648,789
State Grants	4,779,835
Contributions from Local Units	673,069
Charges for Services	1,351,112
Other	<u>11</u>
Total Program Revenues	<u>7,467,571</u>
Net Program Revenues	<u>2,031,041</u>

### General Revenue

Investment Earnings	26,487
Gain on Equipment Disposal	<u>27,766</u>
Total General Revenues	<u>54,253</u>

Change in Net Assets 2,085,294

### Net Assets:

Beginning of Year	<u>10,403,853</u>
End of Year	<u>\$ 12,489,147</u>

The Notes to Financial Statements are an integral part of this statement.



# Delta County Road Commission

Balance Sheet  
September 30, 2005

Governmental  
Fund Type  
General  
Operating Fund

## ASSETS

Cash and Equivalents	\$ 1,230,051
Accounts Receivable:	
Due from Townships on Long-term Agreements	116,000
Michigan Transportation Fund	657,590
State – Other	336,042
Due on County Road Agreements	323,875
Sundry Accounts	8,585
Inventories:	
Road Materials	586,124
Equipment, Parts, and Materials	168,314
Prepaid Expenses	<u>12,516</u>
Total Assets	<u>\$ 3,439,097</u>

## LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 843,185
Accrued Liabilities	60,377
Due to State	43,902
Advances from State	<u>457,866</u>
Total Liabilities	<u>1,405,330</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>2,033,767</u>
Total Fund Equities	<u>2,033,767</u>
Total Liabilities and Fund Equities	<u>\$ 3,439,097</u>

The Notes to Financial Statements are an integral part of this statement.

## **Delta County Road Commission**

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### **Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2005**

Total Governmental Fund Balance	\$ 2,033,767
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,948,224
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,492,844)</u>
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Net Assets of Governmental Activities	<u>\$ 12,489,147</u>
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## Delta County Road Commission

### Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2005

	General Operating Fund
Revenues:	
License and Permits	\$ 14,755
Federal Sources	648,789
State Sources	4,779,835
Contributions from Local Units	673,069
Charges for Services	1,351,112
Interest and Rents	26,487
Other Revenue	<u>27,777</u>
Total Revenues	<u>7,521,824</u>
Expenditures	
Public Works	7,459,532
Capital Outlay	(432,645)
Debt Service	<u>454,008</u>
Total Expenditures	<u>7,480,895</u>
Excess of Revenues Over (Under) Expenditures	40,929
Fund Balance – October 1, 2004	<u>1,992,838</u>
Fund Balance – September 30, 2005	<u>\$ 2,033,767</u>

The Notes to Financial Statements are an integral part of this statement.

## Delta County Road Commission

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### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2005

Net Change in Fund Balance – Total Governmental Funds	\$	40,929
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,881,588
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Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	(334)
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Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	186,811
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>(23,700)</u>
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Change in Net Assets of Governmental Activities	\$	<u>2,085,294</u>
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## **Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Delta County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Delta County Road Commission.

Effective October 1, 2002, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

**A. Reporting Entity**

The Delta County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Delta County Road Commission, a discretely presented component unit of Delta County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, along with other revenues, which are designated for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Delta County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**D. Assets, Liabilities, and Net Assets or Equity****Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

**Inventories**

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

**Capital Assets**

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the operating fund in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Delta County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets on a prospective basis.

**Depreciation**

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

**Compensated Absences (Vacation and Sick Leave)**

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year, and are permitted to carry over up to 2 weeks vacation, to be used by June 1<sup>st</sup> of the following year.

Each regular employee shall earn sick leave with pay at the rate of 8 hours for each month of employment in which the employee works at least 12 days and has qualified as a regular employee. Sick leave may be accumulated without limitation. The Road Commission's sick leave benefits policy provides for payment of 50% of the accumulated benefits, to a maximum of 380 hours, when an employee takes a bona fide retirement or a bona fide disability termination. Those benefits payable upon retirement or disability represent the vested sick leave benefits.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (managing director) prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. Also, the Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 15 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Total actual 2005 expenditures exceeded the total amended budget by a total of \$177,666.

Expenditures by activity that exceeded appropriations by material amounts are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road:			
Maintenance	\$ 1,290,000	\$ 1,426,537	(136,537)
Local Road:			
Heavy Maintenance	735,000	781,518	(46,518)
Maintenance	1,150,000	1,152,246	(2,246)
State Trunkline Maintenance	980,000	985,359	(5,359)
State Trunkline Non-maintenance	35,532	249,509	(213,977)
Equipment Expense-Net	493,000	505,178	(12,178)
Other	-	34,520	(34,520)

**NOTE 3 - CASH AND DEPOSITS**

The Composition of cash and equivalents as reported in the Statement of Net Assets is presented below:

Financial statement presentation:	
Cash and equivalents	\$ 1,230,051
 TOTAL	 \$ 1,230,051
Composition of balances:	
Deposits:	
Checking Accounts	\$ 5,000
Savings Accounts	1,225,051
 TOTAL	 \$ 1,230,051

Cash and cash equivalents consist solely of checking and saving account deposits.

Michigan statutes authorize the Road Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

*Interest Rate Risk.* The Road Commission carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

*Credit Risk.* State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of September 30, 2005, the Road Commission did not hold any commercial paper.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure the Road Commission's deposits may not be returned. At September 30, 2005, the Road Commission held \$39,262 in checking and savings accounts all of which was insured.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 40, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage. The Road Commission has adopted the policies of the County of Delta, relating to cash and investments held by the County.

**NOTE 3 - CASH AND DEPOSITS (Continued)**

*Concentration of Credit Risk.* The Road Commission has no significant concentration of credit risk due to the fact that its deposits are with area banks.

*Foreign Currency Risk.* The Road Commission has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the Road Commission are in accordance with statutory authority.

**NOTE 4 - DEFERRED COMPENSATION PLAN**

The Delta County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Delta County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Delta County Road Commission's financial statements.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the Delta County Road Commission for the current year was as follows:

	Beginning Balances 10/01/04	Additions	Adjustments/ Deductions	Ending Balances 09/30/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 1,410,797	\$ -	\$ -	\$ 1,410,797
Subtotal	1,410,797	-	-	1,410,797
Capital Assets Being Depreciated				
Buildings and Improvements	6,764,447	20,774	-	6,785,221
Road Equipment	6,024,304	383,278	94,441	6,313,141
Shop Equipment	120,873	549	-	121,422
Office Equipment	103,005	10,068	-	113,073
Engineers' Equipment	51,531	-	-	51,531
Construction in Progress	-	133,637	-	133,637
Infrastructure – Bridges	161,092	-	-	161,092
Infrastructure – Roads	5,335,306	2,471,708	-	7,807,014
Subtotal	18,560,558	3,020,014	94,441	21,486,131

**NOTE 5 - CAPITAL ASSETS (Continued)**

	Beginning Balances 10/01/04	Additions	Adjustments/ Deductions	Ending Balances 09/30/05
Less Accumulated Depreciation				
Buildings and Improvements	\$ 1,057,735	\$ 180,057	\$ -	\$ 1,237,792
Road Equipment	4,430,982	650,651	94,107	4,987,526
Shop Equipment	95,588	4,930	-	100,518
Office Equipment	71,904	8,022	-	79,926
Engineers' Equipment	39,987	3,320	-	43,307
Infrastructure – Bridges	5,907	3,222	-	9,129
Infrastructure – Roads	202,282	288,224	-	490,506
Subtotal	5,904,385	1,138,426	94,107	6,948,704
Net Capital Assets Being Depreciated	12,656,173	1,881,588	334	14,537,427
Total Net Capital Assets	\$ 14,066,970	\$ 1,881,588	\$ 334	\$ 15,948,224

Depreciation expense was charged to programs of the Delta County Road Commission as follows:

Primary Road	
Maintenance	\$ 168,644
Local Road	
Maintenance	122,802
Equipment	823,858
Administrative	23,122
Total Depreciation Expense	\$ 1,138,426

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**

**Plan Description** – The Delta County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333 (a); MCLA 46.12 (a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)**

**Retirement Plan Benefits** – The Road Commission offers its various divisions different benefits, which include B-2, B-3 and B-4 benefits. Under benefit B-2, employees shall receive 2.0% of their five-year final average compensation, with no maximum benefit. Under benefit B-3, employees shall receive a benefit of 2.25% of their five-year final average compensation with a maximum benefit of 80% of their five-year final average compensation. Under benefit B-4, an employee shall receive a benefit of 2.5% of their five-year final average compensation with a maximum benefit of 80% of their five-year final average compensation. Retirement eligibility and requirements vary by department. The most recent actuarial report gives the details of the plan and a copy is on file at the Road Commission office.

**Actuarial Accrued Liability** – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/2004)

## Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 1,612,546
Terminated employees (vested former members) not yet Receiving benefits	107,324
Current employees –	
Accumulated employee contributions including allocated investment income	-
Employer financed	<u>5,337,451</u>
Total Actuarial Accrued Liability	\$ 7,057,321
Net Assets Available for Benefits at Actuarial Value (Market Value is \$2,891,854)	<u>2,962,602</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 4,094,719</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)**GASB 27 INFORMATION (as of 12/31/2004)

Fiscal Year Beginning	January 1, 2005
Annual Required Contribution (ARC)	\$ 348,264
Amortization Factor Used – Underfunded Liabilities (30 years)	0.053632
Amortization Factor Used – Underfunded Liabilities (28 years)	0.055889
Amortization Factor Used – Underfunded Liabilities (30 year level \$)	0.085453
Amortization Factor Used – Overfunded Liabilities (10 years)	0.119963

**Funding Policy** – MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

**Annual Pension Costs** – The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The Road Commission was required to contribute \$263,975 for the year ended September 30, 2005. Payments were based on contribution calculations made by MERS.

<u>Annual Pension Cost</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual Pension Cost (APC)	\$ 269,407	\$ 281,915	\$ 338,142
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -
<u>Aggregate Accrued Liabilities</u>			
Actuarial Value of Assets	\$ 2,235,693	\$ 2,601,444	\$ 2,962,602
Actuarial Accrued Liability	5,413,835	5,806,310	7,057,321
Unfunded AAL	(3,178,142)	(3,204,866)	(4,094,719)
Funded Ratio	41%	45%	41%
Covered Payroll	1,517,764	1,546,860	1,752,568
UAAL as a Percentage of Covered Payroll	209%	207%	233%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

**NOTE 7 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2005, the federal aid received and expended by the Road Commission was \$648,789 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

**NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE**

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

**Changes in Long-Term Debt**

	<u>10/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/05</u>
MTF Bonds Payable	\$ 5,250,000	\$ -	\$ 105,000	\$ 5,145,000
MTF Loan Payable	81,811	-	81,811	-
Compensated absences (1)	<u>209,645</u>	<u>29,762</u>	<u>-</u>	<u>239,407</u>
Total	<u>\$ 5,541,456</u>	<u>\$ 29,762</u>	<u>\$ 186,811</u>	<u>\$ 5,384,407</u>

(1) The change in compensated absences is shown as a net addition.

In May 1999, the County of Delta approved a Delta County Road Commission Michigan Transportation Fund Bond Issue for the purpose of constructing Road Commission buildings. The issue was for \$5,690,000, payable over the period 1999 to 2028 at interest rates that range from 4.6% to 7.0%. The annual debt service requirements are as follows:

Bonds Payable:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 110,000	\$ 256,538	\$ 366,538
2007	115,000	250,180	365,180
2008	120,000	244,775	364,775
2009	125,000	239,140	364,140
2010	135,000	233,160	368,160



**NOTE 9 - LONG-TERM DEBT (Continued)**

2011-2015	790,000	1,060,917	1,850,917
2016-2020	1,030,000	835,525	1,865,525
2021-2025	1,350,000	536,361	1,886,361
2026-2028	<u>1,370,000</u>	<u>147,081</u>	<u>1,517,081</u>
Total Bonds Payable	<u>\$ 5,145,000</u>	<u>\$ 3,803,677</u>	<u>\$ 8,948,677</u>

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2005.

Risk Management – The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and boiler and machinery coverage. They participate in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Delta County Road Commission became a member of the pool in 1980 for workers compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductions amounts.

## **Supplementary Information**

# Delta County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 16,000	\$ 15,100	\$ 14,755	\$ (345)
Federal Sources	1,180,000	482,245	648,789	166,544
State Sources				
Michigan Transportation Fund				
Engineering	-	-	10,000	10,000
Snow Removal	-	-	33,955	33,955
Allocation	3,800,000	3,950,000	3,706,984	(243,016)
Urban Road	175,000	175,000	198,693	23,693
Economic Development Fund				
Target Industries	660,000	658,500	642,671	(15,829)
Rural Primary	-	48	48	-
Forest Road	187,500	187,500	187,484	(16)
Contributions from Local Units				
Townships	400,000	645,000	642,843	(2,157)
Hannahville – 2% Grant	-	30,226	30,226	-
Charges for Services				
Trunkline Maintenance	1,100,000	1,094,108	1,099,309	5,201
Trunkline Non-Maintenance	-	35,532	249,509	213,977
Salvage Sales	3,000	2,300	2,294	(6)
Interest and Rents	7,500	26,400	26,487	87
Other Revenue				
Other	-	-	11	11
Gain on Equipment Disposal	50,000	27,666	27,766	100
Total Operating Revenue	<u>\$ 7,579,000</u>	<u>\$ 7,329,625</u>	<u>\$ 7,521,824</u>	<u>\$ 192,199</u>

# Delta County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 2,435,000	\$ 1,868,870	\$ 1,851,346	\$ 17,524
Maintenance	1,290,000	1,290,000	1,426,537	(136,537)
Local Road				
Heavy Maintenance	590,000	735,000	781,518	(46,518)
Maintenance	990,000	1,150,000	1,152,246	(2,246)
State Trunkline Maintenance	1,100,000	980,000	985,359	(5,359)
State Trunkline Non-maintenance	-	35,532	249,509	(213,977)
Equipment Expense – Net	385,000	493,000	505,178	(12,178)
Administrative Expense – Net	434,000	526,000	473,319	52,681
Capital Outlay – Net	(300,000)	(429,256)	(432,645)	3,389
Distributive Expense – Net	200,000	200,000	-	200,000
Debt Service				
Principal	187,000	186,811	186,811	-
Interest	267,300	267,272	267,197	75
Other	-	-	34,520	(34,520)
Total Expenditures	7,578,300	7,303,229	<u>\$ 7,480,895</u>	<u>\$ (177,666)</u>
Fund Balance – October 1, 2004	<u>1,992,838</u>	<u>1,992,838</u>		
Total Budget	<u>\$ 9,571,138</u>	<u>\$ 9,296,067</u>		

## Delta County Road Commission

### Analysis of Changes in Fund Balances For the Year Ended September 30, 2005

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 4,203,884	\$ 1,909,650	\$ 1,408,290	\$ 7,521,824
Total Expenditures	<u>3,840,168</u>	<u>2,296,000</u>	<u>1,344,727</u>	<u>7,480,895</u>
Excess of Revenues Over (Under) Expenditures	363,716	(386,350)	63,563	49,929
Other Financing Sources (Uses)				
Optional Transfers In (Out)	<u>(310,000)</u>	<u>310,000</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	53,716	(76,350)	63,563	49,929
Fund Balance – October 1, 2004	<u>1,393,451</u>	<u>197,937</u>	<u>401,450</u>	<u>1,992,838</u>
Fund Balance – September 30, 2005	<u>\$ 1,447,167</u>	<u>\$ 121,587</u>	<u>\$ 465,013</u>	<u>\$ 2,033,767</u>

# Delta County Road Commission

## Analysis of Revenues For the Year Ended September 30, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 14,755	\$ 14,755
Federal Sources	614,268	-	34,521	648,789
State Sources				
Michigan Transportation Fund				
Engineering	6,930	3,070	-	10,000
Snow Removal	-	33,955	-	33,955
Allocation	2,570,336	1,136,648	-	3,706,984
Urban Road	136,554	62,140	-	198,694
Economic Development Fund				
Target Industries	642,671	-	-	642,671
Forest Road	187,484	-	-	187,484
Rural Area	48	-	-	48
Contributions from Local Units				
Townships	-	642,843	-	642,843
Hannahville – 2% Grant	-	30,226	-	30,226
Charges for Services				
Trunkline Maintenance	-	-	1,099,309	1,099,309
Trunkline Non-Maintenance	-	-	249,509	249,509
Salvage Sales	-	-	2,294	2,294
Interest and Rents	19,971	768	5,748	26,487
Other Revenue				
Other	-	-	11	11
Gain on Equipment Disposal	25,622	-	2,143	27,765
Total Revenue	\$ 4,203,884	\$ 1,909,650	\$ 1,408,290	\$ 7,521,824

# Delta County Road Commission

## Analysis of Expenditures For the Year Ended September 30, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation – Structural Improvements	\$ 1,851,346	\$ -	\$ -	\$ 1,851,346
Maintenance	1,426,536	-	-	1,426,536
Local Road				
Preservation – Structural Improvements	-	781,518	-	781,518
Maintenance	-	1,152,246	-	1,152,246
State Trunkline Maintenance	-	-	985,359	985,359
State Trunkline Non-maintenance	-	-	249,509	249,509
Equipment Expense – Net	177,873	186,613	140,692	505,178
Administrative Expense – Net	297,696	175,623	-	473,319
Capital Outlay – Net	(367,291)	-	(65,354)	(432,645)
Debt Service				
Debt Principal Payments	186,811	-	-	186,811
Interest Expense	267,197	-	-	267,197
Other	-	-	34,521	34,521
Total Expenditures	<u>\$ 3,840,168</u>	<u>\$ 2,296,000</u>	<u>\$ 1,344,727</u>	<u>\$ 7,480,895</u>

## **Compliance Reports**





**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, MI 49829

We have audited the financial statements of the governmental activities and major fund of the Delta County Road Commission as of and for the year ended September 30, 2005, and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Delta County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or error in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Delta County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of County Road Commissioners  
Delta County Road Commission

However, we noted certain matters that we have reported to management of Delta County Road Commission in a separate letter dated February 3, 2006.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.L.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

February 3, 2006

**DELTA COUNTY ROAD COMMISSION**

**REPORT TO MANAGEMENT**

**Year Ended September 30, 2005**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT TO MANAGEMENT**

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, MI 49829

We have audited the financial statements of the Delta County Road Commission for the year ended September 30, 2005, and have issued our reports thereon dated February 3, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Delta County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Delta County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Delta County Road Commission are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the Delta County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Board of County Board Commissioners  
Delta County Road Commission

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the useful lives of property and equipment for the purpose of calculating depreciation.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Delta County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Delta County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Delta County Road Commission's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Delta County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Delta County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Board of County Board Commissioners  
Delta County Road Commission

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

In planning and performing our audit of the financial statements of the Delta County Road Commission, for the year ended September 30, 2005, we considered the Delta County Road Commission's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated February 3, 2006, on the financial statements of the Delta County Road Commission.

We have already discussed many of these comments and recommendations with various Road Commission personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Delta County Road Commission and management of the Delta County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.L.C.*

Certified Public Accountants

February 3, 2006

## DELTA COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

September 30, 2005

#### BUDGET VIOLATIONS

##### **Comment:**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Total actual 2005 expenditures exceeded the total amended budget by a total of \$177,666.

The following activities (cost centers) exceeded the amended budget allocations, which is contrary to the provisions of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act."

<u>Activity (Cost Center)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road:			
Maintenance	\$ 1,290,000	\$ 1,426,537	\$ (136,537)
Local Road:			
Heavy Maintenance	735,000	781,518	(46,518)
Maintenance	1,150,000	1,152,246	(2,246)
State Trunkline Maintenance	980,000	985,359	(5,359)
State Trunkline Non-maintenance	35,532	249,509	(213,977)
Equipment Expense - Net	493,000	505,178	(12,178)
Other	-	34,520	(34,520)
Distributive Expense - Net	200,000	-	200,000

##### **Recommendation:**

We recommend expenditure accounts be closely monitored in order to determine the need to amend the budget prior to year-end to prevent budget violations on a per activity (cost center) basis or in total. We are aware that distributive expenses were budgeted as a separate line item and not yet allocated to the various expense accounts, and we recommend the budgeted distributive expenses be allocated, based on an estimate if necessary, in order to prevent individual line item expenses from exceeding budget at year-end. Most importantly, we recommend the budget be closely monitored in order to prevent actual expenditures from exceeding budget expenditures in total.

## **DELTA COUNTY ROAD COMMISSION**

### **COMMENTS AND RECOMMENDATIONS**

September 30, 2005

#### **Management Response:**

The fiscal year 2005 budget was amended several times throughout the year, with a final amendment being made on September 26, 2005. That final amendment was made to the best of our abilities to predict actual revenues and expenditures. However, there are a lot of factors that affect the final account balances that are not realized until well after the end of the fiscal period. Although several activities appear to be over budget, this is largely due to the fact that Distributive Expenses were budgeted as a separate line item, but at the end of the fiscal year were allocated to other activities, therefore causing those activities to exceed budgeted amounts. The other contributing factor is that toward the end of the fiscal year, MDOT ran a Transportation Work Authorization (Non-Maintenance) through our accounts, which was not considered in the final budget amendment. The activity of State Trunkline Non-Maintenance was over spent by \$213,977, but the revenue associated with this expense was also over budget by the same amount as those expenses were reimbursed 100% by MDOT.

#### **JOURNAL ENTRIES**

##### **Comment:**

A majority of the journal entries made to the general ledger of the Road Commission are initiated, posted, and reviewed by the same individual.

##### **Recommendation:**

We recommend all journal entries posted to the general ledger be reviewed and initialized by the Managing Director, in order to strengthen the internal controls over the financial reporting through this process of additional oversight.

##### **Management Response:**

Auditor recommendation has been implemented.